NEWCASTLE MUNICIPALITY

Annual Financial Statements
for the year ended 30 June 2014

General Information

Mayoral committee

Councillors	Cllr AF Rehman - Mayor
	Cllr RN Mdluli - Deputy Mayor
	Cllr MF Zikhali - Speaker
	Cllr NP Kunene - EXCO Member
	Cllr TZ Hadebe - EXCO Member
	Cllr SBM Lukhele - EXCO Member
	Cllr RD Ndima - EXCO Member
	Cllr BS Ntombela - EXCO Member
	Cllr M Shunmugam - EXCO Member
	Cllr JA Vorster - EXCO Member
	Cllr VV Bam
	Cllr MM Bhekiswayo
	Cllr MV Buhali
	Cllr DRF Buthelezi
	Cllr SSE Buthelezi
	Cllr EJC Cronje
	Cllr JME Damons
	Cllr TJ De Jager
	Cllr CL Dube
	Cllr DX Dube - MPAC
	Cllr JK Gabuza - MPAC
	Cllr FP Gama
	Cllr TS Hlabisa - MPAC
	Cllr MME Hlatshwayo
	Cllr SB Hlatshwayo
	Cllr I Keeka - MPAC
	Cllr LG Khoza
	Cllr CB Khubheka
	Cllr HS Madonsela - MPAC
	Cllr HT Malindi
	Cllr AMM Mashinini
	Cllr NS Mathews
	Cllr JS Mbatha
	Cllr ZJ Mbatha
	Cllr MN Mbokazi
	Cllr Mdlhalose
	Cllr CN Mkhize
	Cllr HN Mkhwanazi
	Cllr MG Mlangeni
	Cllr MS Mlangeni - MPAC
	Cllr GA Mncube - MPAC
	Cllr NA Msibi
	Cllr T Mzoneli
	Cllr SG Ndlovu
	Cllr ME Ngobo
	Cllr NJ Ngobese
	Cllr CL Nhlapo
	Cllr DJZ Nkosi

General Information

	Cllr NT Ntshangase - MPAC Cllr EM Nyembe Cllr TM Nzuze Cllr DO Shabalala Cllr DM Sibilwane Cllr DE Tshabalala - MPAC Cllr SJ Zulu Cllr TM Zulu Cllr EM Zungu Cllr ME Zwane Cllr NA Zwane - MPAC
Grading of local authority	7
Accounting Officer	Mr K Masange
Chief Finance Officer (CFO)	Mr SLG Dube (Acting CFO)
Registered office	27 Murchison Street Newcastle 2940
Business address	27 Murchison Street Newcastle 2940
Postal address	Private Bag X 6621 Newcastle 2940
Bankers	First National Bank
Auditors	Auditor General South Africa

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 77, which have been prepared on the going concern basis, were approved by the accounting officer on 29 August 2014 and were signed on its behalf by:

I also certify that salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office as disclosed in the financial statements below are within the upper limits of the Framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Mr K Masange
Accounting Officer

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013 Restated*
Assets			
Current Assets			
Inventories	8	12 141 510	6 907 956
Other financial assets	53	3 015 328	6 673 997
Receivables from exchange transactions	9	24 142 212	27 892 114
Receivables from non-exchange transactions	10	19 239 128	14 766 447
VAT receivable	11	25 721 296	68 070 371
Consumer debtors	12	522 181 845	325 961 776
Non-current assets held for sale	13	8 745 488	7 632 000
Cash and cash equivalents	14	327 762 037	351 863 529
		942 948 844	**809 768 190**
Non-Current Assets			
Investment property	3	245 993 000	174 448 593
Property, plant and equipment	4	2 343 679 864	1 666 347 621
Intangible assets	5	1 348 001	913 426
Heritage assets	6	3 068 756	2 798 758
Investments in associates	7	516 038 232	980 441 833
		3 110 127 853	**2 824 950 231**
Total Assets		**4 053 076 697**	**3 634 718 421**
Liabilities			
Current Liabilities			
Financial liabilities	15	20 979 603	7 992 190
Finance lease obligation	16	509 592	191 531
Payables from exchange transactions	17	300 286 772	201 332 544
Consumer deposits	18	10 027 543	9 974 703
Unspent conditional grants and receipts	19	43 593 969	104 964 600
Defined benefit plan obligations	20	4 425 946	3 437 863
		379 823 425	**327 893 431**
Non-Current Liabilities			
Financial liabilities	15	219 945 653	62 868 405
Finance lease obligation	16	231 853	6 470
Defined benefit plan obligations	20	93 802 319	106 938 046
Provision for landfill rehabilitation costs	21	25 860 274	22 923 190
		339 840 099	**192 736 111**
Total Liabilities		**719 663 524**	**520 629 542**
Net Assets		**3 333 413 173**	**3 114 088 879**
Reserves			
Housing Development Fund		27 802 096	26 548 794
Insurance reserve		7 095 715	6 804 366
Accumulated surplus		3 298 515 362	3 080 735 719
Total Net Assets		**3 333 413 173**	**3 114 088 879**

* See Note 41

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013 Restated*
Revenue			
Service charges		786 313 000	718 417 674
Rental of facilities and equipment		4 639 974	3 677 190
Other income		6 034 474	4 084 153
Sundry sales		647 921	633 283
Fee income		6 050 224	6 698 417
Interest received		25 518 310	94 392 883
Property rates	23	183 052 004	165 196 821
Government grants & subsidies	24	434 786 974	387 955 623
Fines		9 022 484	7 685 753
Total revenue		**1 456 065 365**	**1 388 741 797**
Expenditure			
Employee costs	25	(347 608 361)	(254 085 135)
Remuneration of councillors	26	(18 190 799)	(17 224 741)
Depreciation and amortisation	27	(251 616 481)	(260 083 473)
Impairment of assets		(10 469 528)	(33 038 271)
Finance costs	28	(10 267 795)	(7 411 820)
Debt impairment	29	13 655 585	(280 631 201)
Collection costs		(10 597 688)	(10 568 640)
Repairs and maintenance		(70 629 940)	(70 121 432)
Bulk purchases	30	(382 802 503)	(383 643 252)
Contracted services	31	(48 648 945)	(26 091 088)
General Expenses	32	(229 134 908)	(163 300 934)
Total expenditure		**(1 366 311 363)**	**(1 506 199 987)**
Operating surplus (deficit)		**89 754 002**	**(117 458 190)**
Share of deficit in investment in associates	7	-	(121 570 165)
Gain/(loss) on disposal of assets		12 604 396	(3 834 162)
Fair value adjustments to investment property	3	74 772 407	-
Gains/(losses) on actuarial valuation	20	23 189 640	(20 964 933)
		110 566 443	**(146 369 260)**
Surplus (deficit) for the year		**200 320 445**	**(263 827 450)**

* See Note 41

Statement of Changes in Net Assets

Figures in Rand	Development Fund	Insurance reserve	Total reserves	Accumulated surplus	Total net assets
Opening balance as previously reported	24 885 398	6 454 794	31 340 192	3 294 607 283	3 325 947 475
Adjustments					
Correction of error	-	-	-	49 955 884	49 955 884
Balance at 01 July 2012 as restated*	**24 885 398**	**6 454 794**	**31 340 192**	**3 344 563 167**	**3 375 903 359**
Changes in net assets					
Surplus for the year	-	-	-	(263 827 450)	(263 827 450)
Transfer to Housing Development Fund	1 663 396	-	1 663 396	-	1 663 396
Transfer to Insurance reserve	-	349 572	349 572	-	349 572
Total changes	1 663 396	349 572	2 012 968	(263 827 450)	(261 814 482)
Restated* Balance at 01 July 2013	**26 548 794**	**6 804 366**	**33 353 160**	**3 080 735 717**	**3 114 088 877**
Changes in net assets					
Correction of errors	-	-	-	17 459 200	17 459 200
Net income (losses) recognised directly in net assets	-	-	-	17 459 200	17 459 200
Surplus for the year	-	-	-	200 320 445	200 320 445
Total recognised income and expenses for the year	-	-	-	217 779 645	217 779 645
Transfer to Housing Development Fund	1 253 302	-	1 253 302	-	1 253 302
Transfer to Insurance reserve	-	291 349	291 349	-	291 349
Total changes	1 253 302	291 349	1 544 651	217 779 645	219 324 296
Balance at 30 June 2014	**27 802 096**	**7 095 715**	**34 897 811**	**3 298 515 362**	**3 333 413 173**

Note(s)

* See Note 41

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		908 491 099	778 259 677
Grants		457 514 773	367 927 392
Interest received		11 182 146	18 946 116
		1 377 188 018	1 165 133 185
Payments			
Employee costs		(365 799 160)	(268 381 486)
Suppliers		(726 307 776)	(826 212 444)
Finance costs		(10 267 795)	(7 411 820)
		(1 102 374 731)	(1 102 005 750)
Net cash flows from operating activities	38	**274 813 287**	**63 127 435**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(1 085 083 229)	(663 610 906)
Proceeds from sale of property, plant and equipment	4	141 397 807	8 320 234
Proceeds from sale of investment property	3	-	24 348 700
Movements in Investment in Associates	6	464 369 247	-
Other cash item			
Net cash flows from investing activities		**(479 316 175)**	**(630 941 972)**
Cash flows from financing activities			
Net movements in long term loans		170 064 661	2 411 120
Movement in provision for landfill rehabilitation costs		2 937 084	428 868
Movement on finance lease		543 444	(187 533)
Movements on defined benefit plan		(12 147 644)	29 115 810
Movement in Reserves		19 003 851	455 737 729
Net cash flows from financing activities		**180 401 396**	**487 505 994**
Net increase/(decrease) in cash and cash equivalents		**(24 101 492)**	**(80 308 543)**
Cash and cash equivalents at the beginning of the year		351 863 529	432 172 072
Cash and cash equivalents at the end of the year	14	**327 762 037**	**351 863 529**

* See Note 41

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand.

1.2 Assets under construction

The cost of property, plant and equipment that is under construction as of the reporting date is recognised as an asset if:
(a) it is probable that future economic benefits or service potential associated with the item(s) will flow to the municipality, and
(b) the cost or fair value of the item(s) can be measured reliably.

Assets under construction consists of expenditure for the construction of buildings, certain land improvements, infrastructure assets and networks and any other capital projects that are under construction as of the reporting date. Expenditure comprises direct labour, materials and overheads, if appropriate.

When assets under construction are completed and certificates of completion issued, they are transferred to the appropriate asset class.

Asset under construction are not depreciated as they are not in a condition necessary for it to be capable of operating in a manner intended by management.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes is accounted for as property, plant and equipment.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

1.3 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

It is the municipality's accounting policy to assess the change in fair value of investment property every three (3) years.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Accounting Policies

1.4 Property, plant and equipment (continued)

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Land	Indefinite
Buildings	80 years
Infrastructure	
• Roads and Paving	80 years
• Bridges	80 years
• Storm water	50 years
Community	
• Clinic and health facilities	30 years
• Stadiums	80 years
• Security system	5 years
Other property, plant and equipment	
• Honey sucker tanker	10 years
• Bins and containers	10 years
• Emergency equipment	10 years
Heritage	
• Buildings	80 years
• Museums	80 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Accounting Policies

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

The municipality accounts for and measures landfill assets using the cost model.

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Accounting Policies

1.6 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software	3 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Accounting Policies

1.7 Heritage assets (continued)

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

Accounting Policies

1.8 Investments in associates

An associate is an entity in whch the investor has significant influence and which is neither a controlled nor a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies. The municipality exercises judgement in the context of all available information to determine if it has significant influence over an investee.

The municipality commences accounting for an investment in an associate from the date significant influence exists and discontinues the application of the equity method when it no longer has significant influence over an associate. Investments that are retained in whole or in part are subsequently accounted for in accordance with the accounting policies on subsidiaries, joint ventures or financial instruments depending on the nature of the retained investment.
The municipality accounts for investment in associate under the equity method in the financial statements. The equity method involves recognising the investment initially at cost, then adjusting for any changes in the investors share of net assets since acquisition. A single line item in the Statement of Financial Performance presents the investors share of the associate's surplus or deficit for the year.

The municipality uses the most recent available financial statements of the associate in applying the equity method. Where the reporting periods of the associate and the municipality are different, separate financial statments for the same period are prepared by the associate unless it is impracticable to do so. When the reporting dates are different, the municipality makes adjustments to the effect of any significant events or transactions between the investor and the associate that occur between the associate and the municipality . Adjustments are made to ensure consistency between the accounting policies of the municipality and associate.

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

1.9 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Accounting Policies

1.9 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:
- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Accounting Policies

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.9 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.9 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

Accounting Policies

1.11 Inventories (continued)

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.13 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a service potential. When an asset is deployed in a manner consistent with that adopted by a service-orientated entity, it generates a service delivery.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Accounting Policies

1.14 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.14 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.15 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.16 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis.

The approved budget covers the fiscal period from 2013/07/01 to 2014/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.17 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.18 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.19 Transfer of functions

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an entity's objectives, by either providing economic benefits (increased sales, cash flow, net income) or service potential (anticipated future benefits to be obtained from an asset).

Recognition and measurement principles
For transfer of functions between entities not under common control, all identifiable assets acquired and liabilities assumed by the acquirer should be measured at acquisition-date fair values.

The assets acquired or transferred and the liabilities assumed or relinquished must be part of what had been agreed in terms of the binding arrangement, rather than the result of separate transactions. The acquirer and acquiree should determine which assets are acquired or transferred and which liabilities are assumed or relinquished as part of a transfer of functions and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable standard of GRAP.

Identifying the acquirer
Where a transfer of functions is effected by transferring cash, other assets or incurring liabilities, the entity transferring the cash or other assets or who incurs the liabilities is usually the acquirer.

Where a transfer of functions is effected by transferring cash, other assets or incurring liabilities, the entity transferring the cash or other assets or who incurs the liabilities is usually the acquirer.

Where a transfer is brought about through the exchange of residual interests, the acquirer will be the entity that does not experience a change in control.

Acquisition date
The acquisition date is the date where the acquirer obtains control over the acquiree. The binding arrangement may specify an effective date for the transfer of functions. There may however be cases where the acquirer obtains control over the acquiree on a date that is earlier or later than the date on which the assets and liabilities are transferred by the acquiree, or specified in the binding arrangement.

Recognition and measurement
The identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the Framework for the Preparation and Presentation of Financial Statements and the recognition criteria in the applicable standards of GRAP at the acquisition date.

The identifiable assets acquired and liabilities assumed must be part of what was agreed by in the binding arrangement between the acquirer and the acquiree.

Under the binding arrangement, the acquirer should have an enforceable claim over the acquiree either, to relinquish control of the entity, or over the assets and liabilities of the function to be transferred.

Recognising and measuring the difference between the assets acquired and liabilities assumed
If the initial accounting of a transfer of functions is incomplete at the end of the reporting period, the identifiable assets acquired and liabilities assumed, for which the accounting is incomplete, should be recognised at their provisional amounts.

1.20 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Accounting Policies

1.20 Employee benefits (continued)

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.20 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.20 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

1.20 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.20 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Accounting Policies

1.20 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.21 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Accounting Policies

1.21 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.21 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and 1.14.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.22 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.22 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

1.23 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Accounting Policies

1.23 Revenue from non-exchange transactions (continued)

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Recognition

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Services in-kind

Services in-kind are not recognised.

1.24 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.25 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.26 Insurance fund

The insurance fund is accounted for at net of cost, and any liability thereto, and adjustments are made only where there are valid claims to the fund.

1.27 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.28 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

Accounting Policies

1.28 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.29 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.30 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.31 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements.

Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.32 Capital commitments

Capital commitments are approved and contracted for when a tender is awarded to a contractor and a valid contract has been signed by both the Accounting Officer and contractor.

Capital commitmtnts are approved but not yet contracted for are those capital projects are appropriated in the capital budget and which are approved by council. These are municipal capital projects for which the tendering process has not commenced and therefore not yet allocated to a contractor through competitive bidding process.

1.33 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

Notes to the Annual Financial Statements

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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after
GRAP 105: Transfers of functions between entities under common control	01 April 2014
GRAP 106: Transfers of functions between entities not under common control	01 April 2014
GRAP 107: Mergers	01 April 2014
GRAP 20: Related parties	01 April 2014
IGRAP 11: Consolidation – Special purpose entities	01 April 2014
IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2014
GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2014
GRAP 7 (as revised 2010): Investments in Associates	01 April 2014
GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2014
GRAP32: Service Concession Arrangements: Grantor	01 April 2014
GRAP108: Statutory Receivables	01 April 2014
IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2014

3. Investment property

	2014			2013		
	Cost / Valuation	**Fair value adjustments**	**Carrying value**	**Cost / Valuation**	**Fair value adjustments**	**Carrying value**
Investment property	171 220 593	74 772 407	245 993 000	174 448 593	-	174 448 593

Reconciliation of investment property - 2014

	Opening balance	Disposals	Transfers	Fair value adjustments	Total
Investment property	174 448 593	(283 000)	(2 945 000)	74 772 407	245 993 000

3. Investment property (continued)

Reconciliation of investment property - 2013

	Opening balance	Disposals	Transfers	Investment property recognised as a result of correction of error	Total
Investment property	182 768 593	(3 870 000)	(7 650 000)	3 200 000	174 448 593

Details of valuation

The Municipality has not pledged investment properties as security.

The value of all municipal properties is R245 993 000 (2013: R171 248 593).

Investment properties values were adjusted by R74 772 407 which was recognised in surplus and deficit in the current year by comparison of property values reflected in the asset register to the latest General Valuation Roll.
Municipal properties were valued by a professional appraiser, i.e. the e-Valuator to value all properties in the municpal area.

In 2013, Investment properties were reflected as R171 248 593 which was determined by a professional appraiser, i.e. "The Valuator", GGSA The Valuator (Proprietary) Limited, independent of the Municipality.

Property values were determined using the following bases:
For properties such as vacant land, residential properties, farms etc, a comparative sales method of valuation was used which considered properties similiar in size, improvements, physical condition, locality and used for the same purposes of the subject property which were sold as close to the valuation date.
For rent produsing properties, the Capitalisation of Income Method was used to determine the value of properties which considered the locality, the condition of the property, the type and strength of the tenant, the terms and length of the lease and the state of the property market at valuation date.
For properties such as churches, sports complexes, local authority buildings, police stations, libraries, public gardens etc which do not have an active market, a Depreciated Replacement Method of valuation was used to determine property values.
For municipal properties that are considered un-saleable which are comprised of cemetries, roads, parking areas, public servitudes and small remainders of land a nominal value was applied and added to the Depreciated Replacement Cost value.

A detailed register of Investment Properties held by the Municipality is available for inspection at the Muncipal Offices, situated at 37 Murchinson Street.

Amounts recognised in surplus and deficit for the year.

	2014	2013
Fair value adjustment to investment property	74 772 407	-
Rental revenue from investment property	1 004 254	847 830

Notes to the Annual Financial Statements

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4. Property, plant and equipment

	2014			2013		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation restated**	**Accumulated depreciation and accumulated impairment**	**Carrying value restated**
Land	68 218 381	(10 399 489)	57 818 892	62 783 747	(5 730 803)	57 052 944
Buildings	73 503 598	(28 333 617)	45 169 981	71 913 328	(26 580 410)	45 332 918
Infrastructure	2 602 278 494	(1 118 933 864)	1 483 344 630	1 922 738 142	(858 997 206)	1 063 740 936
Community	104 070 194	(22 641 496)	81 428 698	93 571 180	(19 851 802)	73 719 378
Work in progress	597 260 459	-	597 260 459	358 849 004	-	358 849 004
Finance lease assets	1 175 738	(406 674)	769 064	401 360	(212 234)	189 126
Other property, plant and equipment	145 033 419	(67 145 279)	77 888 140	116 776 086	(49 312 771)	67 463 315
Total	**3 591 540 283**	**(1 247 860 419)**	**2 343 679 864**	**2 627 032 847**	**(960 685 226)**	**1 666 347 621**

Notes to the Annual Financial Statements

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4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Additions acquired through transfer of functions	Transfers	Depreciation	Impairment loss	Impairment reversal	Total
Land	57 052 945	5 434 632	-	-	(4 668 685)	-	-	57 818 892
Buildings	45 332 917	1 590 271	-	-	(2 184 944)	-	431 737	45 169 981
Infrastructure	1 063 740 936	116 714 483	528 652 509	-	(225 749 936)	(25 250)	11 888	1 483 344 630
Community	73 719 378	10 499 013	-	-	(3 338 887)	-	549 200	81 428 704
Work in progress	358 849 004	379 013 920	-	(140 602 465)	-	-	-	597 260 459
Finance lease assets	189 126	774 378	-	-	(194 440)	-	-	769 064
Other property, plant and equipment	67 463 315	29 078 084	8 742 023	(706 488)	(15 194 999)	(11 493 801)	-	77 888 134
	1 666 347 621	**543 104 781**	**537 394 532**	**(141 308 953)**	**(251 331 891)**	**(11 519 051)**	**992 825**	**2 343 679 864**

Reconciliation of property, plant and equipment - 2013 restated

	Opening balance	Additions	Assets recognised which were previously not recognised	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	74 993 536	3 172 311	-	-	(15 382 100)	(5 730 803)	-	57 052 944
Buildings	65 498 959	331 389	28 091 500	-	(39 249 895)	(1 904 449)	(7 434 586)	45 332 918
Infrastructure	871 775 516	77 726 469	327 190 000	(598 072)	8 935 640	(196 559 119)	(24 729 498)	1 063 740 936
Community	4 574 781	1 047 487	40 244 000	-	31 807 117	(3 136 520)	(817 487)	73 719 378
Work in progress	195 595 522	163 253 482	-	-	-	-	-	358 849 004
Finance lease assets	383 678	-	-	-	-	(194 552)	-	189 126
Other property, plant and equipment	46 080 335	18 752 795	-	-	13 889 238	(11 259 054)	-	67 463 314
	1 258 902 327	**264 283 933**	**395 525 500**	**(598 072)**	**-**	**(218 784 497)**	**(32 981 571)**	**1 666 347 620**

4. Property, plant and equipment (continued)

Pledged as security

There were no assets pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Transitional provisions

Due to a transfer of functions

Property, plant and equipment with a carrying value of R571 567 896 (carrying value at 30 June 2014: R537 394 532) was transferred to Newcastle Municipality from UThukela Water (Proprietary) Limited on 01 July 2013. Property, plant and equipment were recognised at provisional amounts due to the the transfer of functions.

Bulk infrastructure assets with a depreciated replacement cost of R34 173 358 was transferred to UThukela Water (Proprietary) Limited on the same date. Refer note 50.

5. Intangible assets

	2014			2013		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	2 097 323	(749 322)	1 348 001	1 378 195	(464 769)	913 426

Reconciliation of intangible assets - 2014

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	913 426	719 128	(284 553)	1 348 001

Reconciliation of intangible assets - 2013

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	655 699	554 130	(296 403)	913 426

6. Heritage assets

	2014			2013		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Museums, painting and artifacts	3 068 756	-	3 068 756	2 798 758	-	2 798 758

Reconciliation of heritage assets 2014

	Opening balance	**Additions**	**Impairment losses reversed**	**Total**
Museums, painting and artifacts	2 798 758	213 298	56 700	3 068 756

Figures in Rand	2014	2013

6. Heritage assets (continued)

Reconciliation of heritage assets 2013

	Opening balance	Additions	Impairment losses recognised	Total
Museums, painting and artifacts	2 808 116	47 342	(56 700)	2 798 758

7. Investments in associates

			Carrying amount 2014	Carrying amount 2013
UThukela Water (Proprietary) Limited	34,00 %	34,00 %	516 038 232	980 441 833

In terms of the intervention instituted by the Provincial Executive of KwaZulu-Natal in terms of Section 139(1)(a) of the Constitution of South Africa, 1996, the Newcastle Municipality with the effect of 01 July 2013, be responsible for the Water Service Authority function previously assumed by the Provincial Executive of KwaZulu-Natal and uThukela Water (Proprietary) Limited as the Water Service Provider established by the Umzinyathi District, the Amajuba District and Newcastle Local Municipalities.
The effect of this meant that the Newcastle Municipality together with the other parent municipalities of uThukela Water (Proprietary) Limited resumed the water retail and regionalization of the bulk water service function as of 01 July 2013.

The effect on the investment in associate account balance as a result of the transfer of assets and liabilities from UThukela Water (Proprietary) Limited are reflected in note 50.

The municipality's interest in UThukela Water (Proprietary) Limited is 34%. This investment is disclosed in the annual financial statements using the equity method as described in GRAP 7 as follows:

8. Inventories

	2014	2013
Water stock	367 091	-
Consumable stores	11 919 983	6 907 956
	12 287 074	6 907 956
Provision for impairment of inventory	(145 564)	-
	12 141 510	**6 907 956**

In the current year obsolete and damaged inventories were impaired. Write down of inventories is pending Council approval.

Water stock with an approximate value of R327 817 (carrying value at 30 June 2014: R334 558) was transferred to Newcastle Municipality from UThukela Water (Proprietary) Limited on 01 July 2013. Refer note 50.

Inventory pledged as security

No inventory was pledged as security for the current financial period.

9. Receivables from exchange transactions

	2014	2013
Deposits	1 696 040	509 528
Sundry debtors	10 072 714	3 755 078
Other receivables	12 373 458	21 082 462
Insurance debtors	-	2 545 046
	24 142 212	**27 892 114**

Notes to the Annual Financial Statements

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10. Receivables from non-exchange transactions

Fines (Gross balance)	27 820 092	21 352 522
Less: Provision for impairment	(8 580 964)	(6 586 075)
	19 239 128	**14 766 447**

Reconciliation of fines		
Opening balance	21 352 522	16 263 909
Add: Fines recognised	8 993 975	7 649 620
Less: Fines received	(2 526 405)	(2 561 007)
	27 820 092	**21 352 522**

Reconciliation of provision for impairment		
Opening balance	6 586 074	5 016 518
Add: Contribution to provision for impairment	1 994 890	1 569 557
	8 580 964	**6 586 075**

Fine revenue recognised in surplus and deficit comprised of:		
Traffic fine revenue	8 993 975	7 649 620
Other fine revenue	28 509	36 133
	9 022 484	**7 685 753**

Fine revenue is comprised of revenue from traffic fines and other fines.
An impairment tested was conducted which reflected an average collection rate of 30.84% for the preceding 5 years.

Included in consumer debtors (refer note 12), consumers debtors debtors

11. VAT receivable

VAT	25 721 296	68 070 371

Input VAT comprised of the following:		
Input VAT declared through VAT returns	51 315 668	68 070 370
Less: Provision for VAT impairment	(25 594 372)	-
	25 721 296	**68 070 370**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

12. Consumer debtors

Gross balances		
Rates	106 157 640	82 275 925
Electricity	66 104 890	59 399 837
Water	232 884 594	164 254 930
Sewerage	142 763 484	104 498 904
Refuse	65 687 073	47 480 970
Other	63 155 453	58 705 792
VAT and sundry services	318 119 093	313 214 620
	994 872 227	**829 830 978**
Less: Allowance for impairment		
Rates	(47 469 261)	(54 540 764)
Electricity	(15 905 762)	(24 690 164)
Water	(101 051 473)	(76 479 166)
Sewerage	(66 200 957)	(69 272 391)
Refuse	(32 749 471)	(31 475 166)
Other	(35 063 585)	(39 781 375)
VAT and sundry services	(174 249 871)	(207 630 176)
	(472 690 380)	**(503 869 202)**
Net balance		
Rates	58 688 378	27 735 161
Electricity	50 199 128	34 709 673
Water	131 833 121	87 775 764
Sewerage	76 562 527	35 226 513
Refuse	32 937 602	16 005 804
Other	28 091 867	18 924 417
VAT and sundry services	143 869 222	105 584 444
	522 181 845	**325 961 776**
Included in above is receivables from exchange transactions		
Electricity	66 104 890	59 399 837
Water	232 884 594	164 254 930
Sewerage	142 763 484	104 498 904
Refuse	65 687 073	47 480 970
Other	63 155 453	58 705 792
VAT and sundry services	318 119 093	313 214 619
	888 714 587	**747 555 052**
Included in above is receivables from non-exchange transactions		
Rates	106 157 640	82 275 926
Total	**994 872 227**	**829 830 978**
Rates		
Current (0 -30 days)	16 019 462	11 190 256
31 - 60 days	3 001 728	2 907 072
61 - 90 days	2 830 507	2 649 434
91 - 120 days	2 748 242	2 351 619
121 - 365 days	2 565 911	2 279 376
> 365 days	78 991 789	60 898 168
	106 157 640	**82 275 925**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

12. Consumer debtors (continued)

Electricity, Water, Sewerage and Refuse		
Current (0 -30 days)	137 734 501	60 380 970
31 - 60 days	13 392 696	10 835 344
61 - 90 days	13 098 134	10 161 520
91 - 120 days	13 250 897	8 673 148
121 - 365 days	12 080 786	8 267 902
> 365 days	317 883 025	277 315 757
	507 440 040	**375 634 641**

VAT and Sundries		
Current (0 -30 days)	(2 111 681)	46 946 489
31 - 60 days	5 445 670	3 587 610
61 - 90 days	2 069 149	1 646 363
91 - 120 days	2 599 900	1 437 257
121 - 365 days	1 904 432	1 413 586
> 365 days	308 211 624	258 183 314
	318 119 093	**313 214 619**

Other		
Current (0 -30 days)	(67 778)	6 108 420
31 - 60 days	623 727	5 173 140
61 - 90 days	673 232	5 112 954
91 - 120 days	626 138	4 820 519
121 - 365 days	626 387	4 910 336
> 365 days	60 673 747	32 580 421
	63 155 453	**58 705 790**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

12. Consumer debtors (continued)

Summary of debtors by customer classification

	2014	2013
Consumers		
Current (0 -30 days)	42 733 791	27 771 461
31 - 60 days	19 140 476	18 244 092
61 - 90 days	16 420 346	15 731 007
91 - 120 days	16 432 122	15 025 660
121 - 365 days	15 325 641	15 141 990
> 365 days	706 070 736	640 323 734
	816 123 112	732 237 944
Less: Allowance for impairment	(387 761 900)	(437 894 876)
	428 361 212	**294 343 068**
Industrial/ commercial		
Current (0 -30 days)	107 668 687	33 336 950
31 - 60 days	2 596 370	3 651 974
61 - 90 days	1 600 356	3 186 648
91 - 120 days	2 132 892	1 887 979
121 - 365 days	1 275 927	1 381 542
> 365 days	43 902 084	38 751 301
	159 176 316	82 196 394
Less: Allowance for impairment	(75 628 922)	(56 126 926)
	83 547 394	**26 069 468**
National and provincial government		
Current (0 -30 days)	(926 411)	(941 073)
31 - 60 days	729 984	615 896
61 - 90 days	651 921	663 918
91 - 120 days	662 348	382 990
121 - 365 days	577 560	356 381
> 365 days	17 877 395	14 318 527
	19 572 797	15 396 639
Less: Allowance for impairment	(9 299 559)	(9 847 401)
	10 273 238	**5 549 238**
Total		
Current (0 -30 days)	149 476 067	60 167 338
31 - 60 days	22 466 830	22 511 963
61 - 90 days	18 672 623	19 581 573
91 - 120 days	19 227 362	17 296 629
121 - 365 days	17 179 128	16 879 913
> 365 days	767 850 217	693 393 563
	994 872 227	829 830 979
Less: Allowance for impairment	(472 690 380)	(503 869 203)
	522 181 847	**325 961 776**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

12. Consumer debtors (continued)

Reconciliation of allowance for impairment

Balance at beginning of the year	(503 869 203)	(443 707 899)
Contributions to allowance	15 650 474	(279 061 645)
Debt impairment written off against allowance	15 528 349	219 696 262
De-registration of indigent debtors	-	(795 920)
	(472 690 380)	**(503 869 202)**

Credit quality of consumer debtors

Consumer debtors comprise a widespread customer base. The Municipality engaged TransUnion to evaluate the credit risk relating to the consumer debtors account balance as at 31 May 2014. Factors used to determine characteristics of collection levels were considered during the risk rating of consumer debtors and evaluation for impairment.

The credit quality of trade receivables that are neither past due nor impaired are considered fair by the municipality taking into account the historical information available.
The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, management believes no further credit provisions are required in excess of the present allowance for doubtful debts

Consumer debtors impaired

As at 30 June 2014, consumer debtors of R15 528 349 (2013: R219 696 262) were impaired and provided for.

The amount of the provision was R472 690 380 (2013: R503 869 202).

13. Non-current assets held for sale

Land

Opening balance	7 632 000	-
Add: Transfers in - Classified as held for sale	3 651 488	7 632 000
Less: Transfers out - Disposals	(2 538 000)	-
	8 745 488	**7 632 000**

Non-current assets held for sale comprises R2 945 000 and R706 488 which relate to land and moveable assets respectively which have been classified as held for sale in the current year (2013: Land R7 632 000).

14. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash and cash equivalents are initially measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents consist of:

Cash on hand	434 516	15 750
Bank balances	109 434 277	5 011 194
Short-term deposits	217 893 244	346 836 585
	327 762 037	**351 863 529**

Figures in Rand	2014	2013

14. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013		30 June 2014	30 June 2013	
FNB - 53140035974	107 961 682	3 402 192		109 434 277	5 011 194	
FNB - 53140063149	1 472 594	1 558 560		-	-	
Total	**109 434 276**	**4 960 752**	**-**	**109 434 277**	**5 011 194**	**-**

	2014	2013
Short-term investments		
Money market accounts	51 363 197	78 100 011
Call accounts	166 530 048	268 736 574
	217 893 245	**346 836 585**

	2014	2013
Money market accounts		
Sanlam - 1246107	51 363 197	49 012 284
FNB - 62132797088	-	29 087 727
	51 363 197	**78 100 011**

	2014	2013
Call accounts		
FNB - 62104301388	1 493 343	1 485 054
FNB - 62351037695	-	5 000 000
FNB - 62336749497	5 610 568	5 380 074
FNB - 71351217206	-	51 800 000
Nedbank - 7648555441/044	-	47 900 000
Nedbank - 7648555441/10	245 510	234 586
Nedbank - 7648555441/01	4 601 402	4 396 661
Nedbank - 7648555441/013	196 289	187 555
ABSA - 9288456248	5 004 788	-
ABSA - 9112678241	4 369 252	4 193 857
ABSA - 2072185521	-	51 100 000
ABSA - 9293256166	51 100 000	-
ABSA - 9123294032	168 215	161 479
Standard Bank - 68450354/011	-	5 000 000
Standard Bank - 68450354/015	8 475 159	8 086 231
Standard Bank - 68450354/016	27 297 577	26 044 880
Standard Bank - 68450354/001	4 313 993	4 116 023
Standard Bank - 68450354/030	2 500 000	2 500 000
Standard Bank - 68450354/034	48 800 000	-
Standard Bank - 68450354/009	2 273 026	2 273 026
Standard Bank - 68450354/008	80 926	77 248
Standard Bank - 428801730/002	-	48 800 000
	166 530 048	**268 736 674**

	2014	2013
Interest income		
Interest on primary bank account	3 357 513	3 327 361
Interest on investment accounts	13 823 408	19 169 050
	17 180 921	**22 496 411**

15. Other financial liabilities

	2014	2013
At amortised cost		
DBSA loans	240 925 256	70 860 595

Figures in Rand	2014	2013

15. Other financial liabilities (continued)

The municipality has twenty (20) loans from Development Bank of Southern Africa (DBSA) to fund infrastructure assets. Each loan has a fixed interest rate however, all loans have different interest rates. Interest rates are between 5% and 12% per annum, payable quarterly.

Long term loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

	2014	2013
Non-current liabilities		
At amortised cost	219 945 653	62 868 405
Current liabilities		
At amortised cost	20 979 603	7 992 190

Water stock with an approximate value of R327 817 (carrying value at 30 June 2014: R334 558) was transferred to Newcastle Municipality from UThukela Water (Proprietary) Limited on 01 July 2013. Refer note 50.

Financial liabilties (3 loans) with an amortised cost of R16 138 617 on 01 July 2013 were assumed by Newcastle Municipality from UThukela Water (Proprietary) Limited. Financial liabilities are repayable every quarter and interest rates range from 5% to 10.46% per annum. Refer note 50.

16. Finance lease obligation

	2014	2013
Minimum lease payments due		
- within one year	509 592	203 064
- in second to fifth year inclusive	231 853	6 768
	741 445	209 832
less: future finance charges	(205 112)	(11 831)
Present value of minimum lease payments	**536 333**	**198 001**
Present value of minimum lease payments due		
- within one year	355 413	203 064
- in second to fifth year inclusive	180 920	6 768
	536 333	**209 832**
Non-current liabilities	231 853	6 470
Current liabilities	509 592	191 531
	741 445	**198 001**

The average lease term is 24 months and the effective borrowing rate is 26% (2013:11%). Interest rates are fixed at the contract date. No arrangements have been entered into for contingent rental.

Notes to the Annual Financial Statements

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17. Payables from exchange transactions

Trade payables	147 888 572	86 812 466
Retentions	30 425 211	25 833 549
Output VAT on levies	74 380 862	57 008 031
Stale cheques written back	277 167	75 946
Operating lease accrual - straight-lining of operating leases	247 442	124 047
Leave pay provision	27 172 801	25 750 657
Bonus provision	7 886 332	-
Other payables	12 008 385	5 727 848
	300 286 772	**201 332 544**

The fair value of trade and other payables approximates their carrying amounts.

Trade and other payables are non-interest-bearing and are normally settled on 30 day terms, except retentions that could be settled after 12 months.

Payments received in advance are non-interest bearing and normally settled on 30 day terms. Management policies are in place to ensure that all payables are paid within a reasonable timeframe - 30 days

18. Consumer deposits

Electricity	9 524 161	10 827 937
Refuse	452 240	(890 637)
Housing rental	51 142	37 403
	10 027 543	**9 974 703**

Figures in Rand	2014	2013

19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	-	3 248 608
Osizweni Arts Centre	36 920	36 920
Corridor Development	135 245	135 244
Disaster Management	-	1 500 000
Municipal Water Infrastructure Grant	1 921 276	-
Provincialisation - Libraries	3 107 111	-
Carnergie Art Gallery	284 000	-
Fort Amiel museum	284 000	-
Municipal Systems Improvement Grant	410 588	2 229 629
Financial Management Grant	-	1 181 255
Grant Skills Development	98 991	249 209
Capacity Building - Housing	6 454 849	4 823 200
Environmental Management Framework	572 310	953 500
Neighbourhood Development Partnership	-	16 104 934
Electrification Grant	-	10 043 459
Expanded Public Works Programme	-	26 465
Water Services Operating & Masification Subsidies	3 611 486	13 450 945
KwaMathukuza Housing Projects	14 065 853	14 065 853
JBC Housing Project	3 000 000	4 500 000
Cleanest Town	823 975	423 975
Newcastle Library Internet Project	7 535	30 209
Construct/Upgrade Sport & Recreation	993 603	584 729
Municipal Infrastructure Grant - Project Management Unit Allocation	252 435	4 267 652
Madadeni Library Internet Project	143 548	124 878
Madadeni/Osizweni upgrading of houses	2 080 113	2 080 113
Osizweni library internet project	75 432	101 345
Repair construction storm damage HS	1 218 040	1 218 040
LED Projects - Lancets	1 500 000	-
WC/WDM	21 119	21 119
Osizweni F phase 1 sewer	72 485	72 485
Drought Relief Fund	23 055	23 055
Viljoen Park Updrade	2 400 000	2 400 000
Other unspent conditional grants	-	21 067 779
	43 593 969	**104 964 600**

The nature and extent of government grants recognised in the financial statements is an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

Figures in Rand	2014	2013

20. Defined benefit plan obligations

Reconciliation of defined benefit plan obligations - 2014

	Opening Balance	Current service costs	Contributions paid	Actuarial loss/(gain)	Interest costs	Total
Employee benefits	110 375 909	6 602 228	(3 437 863)	(23 189 640)	7 877 631	98 228 265

Reconciliation of defined benefit plan obligations - 2013

	Opening Balance	Current service costs	Contributions paid	Actuarial loss/(gain)	Interest costs	Total
Employee benefits	81 408 879	4 785 416	(3 586 743)	20 964 933	6 803 424	110 375 909

	2014	2013
Non-current liabilities	93 802 319	106 938 046
Current liabilities	4 425 946	3 437 863
	98 228 265	**110 375 909**

	2014	2013
Health care benefits		
Balance at the beginning of the year	96 855 287	67 383 722
Current service cost	5 306 118	3 029 627
Contributions paid	(2 205 782)	(2 089 992)
Actuarial (gain)/loss	(23 940 072)	22 761 401
Interest	6 942 049	5 770 529
	82 957 600	**96 855 287**

	2014	2013
Net expenses recognised in Statement of Financial Performance		
Current service cost	5 306 118	3 029 627
Benefits paid	(2 205 782)	(2 089 992)
Actuarial (gain)/loss	(23 940 072)	22 761 401
Interest	6 942 049	5 770 529
	(13 897 687)	**29 471 565**

	2014	2013
Long service bonus awards		
Balance at the beginning of the year	13 520 622	14 025 157
Current service cost	1 296 110	1 755 789
Benefits paid	(1 232 081)	(1 496 751)
Actuarial loss/(gain)	750 432	(1 796 468)
Interest	935 582	1 032 895
	15 270 665	**13 520 622**

	2014	2013
Net expenses recognised in Statement of Financial Performance		
Current service cost	1 296 110	1 755 789
Benefits paid	(1 232 081)	(1 496 751)
Actuarial loss/(gain)	750 432	(1 796 468)
Interest	935 582	1 032 895
	1 750 043	**(504 535)**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

20. Defined benefit plan obligations (continued)

Assumptions
Health Care Benefits
The municipality provides certain post retirement medical benefits by funding the medical aid contribution of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition service), on retirement, is entitled to remain a continued member of such a medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The most recent actuarial valuations the present value of unfunded defined obligation was carried out as at 30 June 2014 by ARCH Actuarial Consulting, a member of Actuarial Society of South Africa. The present value of the defined obligation, and related current service cost and past service cost were measured using the projected unit credit method. No other post retirement medical benefits are provided by the municipality.

Key financial assumptions used		
Discount rate	9.03%	
Health care cost inflation rate	8.20%	
Net effective discount rate	0.77%	

Unfunded Accrued Liability	R82 957 600	R96 855 287
Current-service and Interest Costs		
Year ending 30 June 2014 (current period)	R5 306 118	
Interest Cost	R6 942 049	
Actuarial (Gain)/Loss Recognised in Surplus/Deficit	R23 940 072	

Long Service Bonus Awards
The long service bonus award is a function of accumulated leave days that is convertible into cash in the year the employee attains the service eligible for an award at a rate of 1/250 of annual salary per day.

Key financial assumptions used		
Discount rate	7.98%	7.25%
General Salary Inflation (long-term)	7.13%	7.15%
Net effective discount rate	0.79%	0.09%

The salaries used in the valuation include an assumed increase on 1 July 2014 of 6.79% as per the SALGBC Circular No.: 3/2014. The next salary increase was assumed to take place on 1 July 2015.

Key Demographic Assumptions	
Average retirement age	63
Mortality during employment	SA 85-90

Withdrawal from service (sample annual rates)	Age	Rate - Female	Rate - Male
	20	24%	16%
	30	15%	10%
	40	6%	6%
	50	2%	2%
	55	0%	0%

Unfunded Accrued Liability		
Total value of liabilities	R15 270 665	R13 520 622
Value of assets	0	0
Unfunded Accrued Liability	R15 270 665	R13 520 622
Current-service and Interest Costs		
Current-service Cost	R1 296 110	
Interest Cost	R 935 582	

Comparison of vital statistics

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

20. Defined benefit plan obligations (continued)

	2014	2013
Number of eligble employees	1274	1054
Average annual salary	R139 648	R119 279
Salary-weighted average age	42.9	42.9
Salary-weighted average past service	11.1	11.2

21. Provision for landfill rehabilitation costs

	2014	2013
Provision for landfill rehabilitation costs	25 860 274	22 923 190

The provision for rehabilitation costs is raised for the rehabilitation of the refuse disposal site to it's original state once the landfill has reach the end of it's useful life. The provision for rehabilitation costs is calculated as the present value of the future value of the future obligation, discounted at 6%, over a period of 3 years (being the remaining useful life of the landfill). The discounting rate used to discount the future value of the value of the provision is the return on long-term Treasury Bonds and further adjusted for municipal specific risks.

During the current year, the future value of the provision for rehabilitation of the landfill was re-estimated at R30 800 000 (2013: R28 939 999) by Jeffares & Green.

The effect of discounting of the future value of the provision for rehabilitation of the landfill over the remaining useful life is estimated at R4 939 726.

The movement in the non-current provision is reconciled as follows:

	2014	2013
Balance at the beginning of the year	22 923 190	22 494 322
Increase in provision	1 473 295	-
Finance charges recognised	1 463 789	428 868
	25 860 274	**22 923 190**

22. Revenue

	2014	2013
Service charges	786 313 000	718 417 674
Rental of facilities and equipment	4 639 974	3 677 190
Other income	6 034 474	4 084 153
Sundry sales	647 921	633 283
Fee income	6 050 224	6 698 417
Interest received	25 518 310	94 392 883
Property rates	183 052 004	165 196 821
Government grants & subsidies	434 786 974	387 955 623
Fines	9 022 484	7 685 753
	1 456 065 365	**1 388 741 797**

The amount included in total revenue reflected above arising from exchange of goods and services is comprised of::

	2014	2013
Service charges	786 313 000	718 417 674
Rental of facilities and equipment	4 639 974	3 677 190
Other income	6 034 474	4 084 153
Sundry sales	647 921	633 283
Fee income	6 050 224	6 698 417
Interest received - investment	25 518 310	94 392 883
	829 203 903	**827 903 600**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

22. Revenue (continued)

The amount included in total revenue reflected above arising from non-exchange transactions is comprised of:

Property rates	183 052 004	165 196 821
Government grants & subsidies	434 786 974	387 955 623
Fines	9 022 484	7 685 753
	626 861 462	**560 838 197**

23. Property rates

Rates received

Property rates	183 052 004	165 196 821

Valuations

Residential	9 627 634 780	9 580 425 780
Commercial	3 702 862 600	3 296 115 600
State	92 106 501	92 053 500
Vacant	285 095 100	305 873 100
Specialised non-market	1 054 734 000	1 022 300 000
Agriculture	702 104 000	702 104 000
Communal land	85 345 000	85 025 000
	15 549 881 981	**15 083 896 980**

Valuations on land and buildings are performed every four years. The last valuation came into effect on 01 July 2009. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations and subdivisions.

The latest valuation performed on land and buildings in the municipal area will be effective on 01 July 2014.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

24. Government grants and subsidies

Equitable share	266 289 343	270 475 000
Newcastle library internet project	142 673	88 333
Finance management grant	2 029 000	1 021 987
Skills development grant	709 819	1 316 668
Expanded Public Works programme incentive	1 336 465	4 822 631
Neighbourhood development partnership	14 704 933	5 220 858
Electrification grant	10 700 000	4 266 690
JBC housing project	1 500 000	-
Water services operating & masification subsidies	24 055 864	6 712 085
Municipal infrastructure grant	101 050 608	86 789 392
Municipal systems improvement grant	1 279 412	-
Repair construction storm damage HS	-	3 836 829
Environmental management framework	381 190	-
MIG PMU Allocation	4 015 217	-
Construct/Upgrade sport/Recreation	116 126	116 281
Madadeni library internet project	101 329	-
Municipal Water Infrastructure Grant	3 564 723	-
Osizweni library internet project	145 913	104 133
Provincialisation- All Libraries	1 608 888	2 246 000
Capacity building Housing	1 055 471	-
Other Government Grants and Subsidies	-	938 735
	434 786 974	**387 955 622**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure Grant

Balance unspent at beginning of year	3 248 608	-
Current-year receipts	97 802 000	90 038 000
Conditions met - transferred to revenue	(101 050 608)	(86 789 392)
	-	**3 248 608**

Municipal Systems Improvement Grant

Balance unspent at beginning of year	2 229 629	1 429 629
Current-year receipts	890 000	800 000
Conditions met - transferred to revenue	(1 279 412)	-
Funds surrendered to National Revenue Fund	(1 429 629)	-
	410 588	**2 229 629**

Conditions still to be met - remain liabilities (see note 19).

Financial Management Grant

Balance unspent at beginning of year	1 181 255	703 242
Current-year receipts	1 550 000	1 500 000
Conditions met - transferred to revenue	(2 029 000)	(1 021 987)
Funds surrendered to National Revenue Fund	(703 000)	-
	(745)	**1 181 255**

Conditions still to be met - remain liabilities (see note 19).

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

24. Government grants and subsidies (continued)

Skills Development Grant

Balance unspent at beginning of year	249 209	-
Current-year receipts	559 601	1 565 877
Conditions met - transferred to revenue	(709 819)	(1 316 668)
	98 991	**249 209**

Conditions still to be met - remain liabilities (see note 19).

Expanded Works Programme Incentive

Balance unspent at beginning of year	26 465	2 974 096
Current-year receipts	1 310 000	1 875 000
Conditions met - transferred to revenue	(1 336 465)	(4 822 631)
	-	**26 465**

Environmental Management Framework

Balance unspent at beginning of year	953 500	1 353 500
Conditions met - transferred to revenue	(381 190)	-
Correction of cleanest town grant misallocated	-	(400 000)
	572 310	**953 500**

Conditions still to be met - remain liabilities (see note 19).

Neighbourhood Development Partnership

Balance unspent at beginning of year	16 104 933	12 325 791
Current-year receipts	10 000 000	9 000 000
Conditions met - transferred to revenue	(14 704 933)	(5 220 858)
Funds surrendered to National Revenue Fund	(11 400 000)	-
	-	**16 104 933**

Conditions still to be met - remain liabilities (see note 19).

Electrification Grant

Balance unspent at beginning of year	10 043 459	4 310 149
Current-year receipts	5 000 000	10 000 000
Conditions met - transferred to revenue	(10 700 000)	(4 266 690)
Funds surrendered to National Revenue Fund	(4 343 459)	-
	-	**10 043 459**

Conditions still to be met - remain liabilities (see note 19).

Water Services Operating & Masification Subsidies

Balance unspent at beginning of year	13 450 945	7 032 652
Current-year receipts	14 216 405	13 130 378
Conditions met - transferred to revenue	(24 055 864)	(6 712 085)
	3 611 486	**13 450 945**

Conditions still to be met - remain liabilities (see note 19).

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

24. Government grants and subsidies (continued)

KwaMatukuza Housing Project

Balance unspent at beginning of year	14 065 854	13 555 016
Current-year receipts	-	510 838
	14 065 854	**14 065 854**

Conditions still to be met - remain liabilities (see note 19).

Newcastle Library internet project

Balance unspent at beginning of year	30 209	118 542
Current-year receipts	120 000	-
Conditions met - transferred to revenue	(142 673)	(88 333)
	7 536	**30 209**

Conditions still to be met - remain liabilities (see note 19).

JBC Housing Project

Balance unspent at beginning of year	4 500 000	4 500 000
Conditions met - transferred to revenue	(1 500 000)	-
	3 000 000	**4 500 000**

Conditions still to be met - remain liabilities (see note 19).

Repair Construction Storm damage HS

Balance unspent at beginning of year	1 218 040	-
Current-year receipts	-	5 054 869
Conditions met - transferred to revenue	-	(3 836 829)
	1 218 040	**1 218 040**

Conditions still to be met - remain liabilities (see note 19).

MIG PMU Allocation

Balance unspent at beginning of year	4 267 653	4 267 653
Conditions met - transferred to revenue	(4 015 217)	-
	252 436	**4 267 653**

Conditions still to be met - remain liabilities (see note 19).

Construct/Upgrade sport/Recreation

Balance unspent at beginning of year	584 731	176 012
Current-year receipts	525 000	525 000
Conditions met - transferred to revenue	(116 126)	(116 281)
	993 605	**584 731**

Conditions still to be met - remain liabilities (see note 19).

Madadeni library internet project

Balance unspent at beginning of year	124 878	124 878

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

24. Government grants and subsidies (continued)

Current-year receipts	120 000	-
Conditions met - transferred to revenue	(101 329)	-
	143 549	**124 878**

Conditions still to be met - remain liabilities (see note 19).

Municipal Water Infrastructure Grant

Current-year receipts	5 486 000	-
Conditions met - transferred to revenue	(3 564 723)	-
	1 921 277	**-**

Conditions still to be met - remain liabilities (see note 19).

Osizweni Library internet project

Balance unspent at beginning of year	101 345	99 678
Current-year receipts	120 000	105 800
Conditions met - transferred to revenue	(145 913)	(104 133)
	75 432	**101 345**

Conditions still to be met - remain liabilities (see note 19).

Provincialisation- All Libraries

Current-year receipts	4 716 000	2 246 000
Conditions met - transferred to revenue	(1 608 888)	(2 246 000)
	3 107 112	**-**

Conditions still to be met - remain liabilities (see note 19).

Capacity Building housing

Balance unspent at beginning of year	4 823 000	-
Current-year receipts	2 847 138	4 823 000
Conditions met - transferred to revenue	(1 055 471)	-
	6 614 667	**4 823 000**

Conditions still to be met - remain liabilities (see note 19).

Osizweni arts centre

Balance unspent at beginning of year	36 920	110 900
Conditions met - transferred to revenue	-	(73 980)
	36 920	**36 920**

Conditions still to be met - remain liabilities (see note 19).

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

24. Government grants and subsidies (continued)

Corridor development

Balance unspent at beginning of year	135 245	1 000 000
Conditions met - transferred to revenue	-	(864 755)
	135 245	**135 245**

Conditions still to be met - remain liabilities (see note 19).

25. Employee related costs

Basic	201 823 665	144 110 437
Bonus	7 124 308	-
Medical aid - company contributions	13 044 522	12 522 206
UIF	1 966 091	1 504 564
WCA	2 786 520	-
SDL	26 053	-
Leave bonus paid	14 057 603	11 137 116
Defined contribution plans	34 331 072	28 558 924
Travel, motor car, accommodation, subsistence and other allowances	2 340 758	1 368 255
Overtime payments	35 586 330	23 042 300
Long-service awards	101 872	446 019
Transport allowance	16 765 340	17 221 834
Housing benefits and allowances	7 904 127	7 101 121
Group insurance	4 784 862	3 374 908
Bargaining council	1 202	-
Night work allowance	870 606	639 137
Leave pay provision	4 093 430	3 058 314
	347 608 361	**254 085 135**

Remuneration of the Municipal Manager

Annual Remuneration	1 102 465	1 134 528
Car Allowance	230 774	216 000
Contributions to UIF, Medical and Pension Funds	46 930	46 108
Annual Bonus	90 814	85 000
Subsistence and Travelling	38 186	52 314
Leave Paid	99 818	-
	1 608 987	**1 533 950**

Performance bonus amounting to R152 755 which relates to the 2012 financial year which was approved.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

25. Employee related costs (continued)

Remuneration of the Chief Finance Officer

Annual Remuneration	371 737	627 387
Car Allowance	99 361	186 000
Contributions to UIF, Medical and Pension Funds	22 785	123 439
Annual Bonus	-	50 625
Subsistence and Travelling	19 693	29 484
Leave Paid	-	43 357
	513 576	**1 060 292**

The Chief Financial Officer's contract of employment had come to an end effectively 31 December 2013.
The Chief Financial Officer was entitled to a bonus amounting to R63 584 which was approved.

An Acting Chief Financial Officer was appointed on 06 January 2014. Costs incurred relating to the acting appointment have been included in consultant fees.

Figures in Rand	2014	2013

25. Employee related costs (continued)

Remuneration of Executive Directors

Annual Remuneration	5 993 736	4 396 277
Travel, motor car, accommodation, subsistence and other allowances	1 337 264	1 289 832
Performance Bonuses	251 249	145 733
Contributions to UIF, Medical and Pension Funds	553 638	545 459
Leave Paid	68 259	-
	8 204 146	**6 377 301**

Remuneration of Individual Executive Directors

Legal Services Director		
Annual Remuneration	824 450	755 000
Travel, motor car, accommodation, subsistence and other allowances	153 567	145 721
Leave Paid	38 581	-
Contributions to UIF, Medical and Pension Fund	121 088	125 384
	1 137 686	**1 026 105**

Performance bonus amounting to R72 667 which relates to the 2012 financial year was approved.

Internal Audit		
Annual Remuneration	587 514	629 904
Travel, motor car, accommodation, subsistence and other allowances	16 000	-
Performance and other bonuses	-	202 122
Contributions to UIF, Medical and Pension Fund	66 981	7 778
	670 495	**839 804**

The Chief Audit Executive was appointed on 01 November 2013.
The Manager: Internal Audit had acted as the Head of the Internal Audit up until 31 October 2013.

Technical Services Director		
Annual Remuneration	696 921	568 317
Travel, motor car, accommodation, subsistence and other allowances	242 698	283 340
Performance and other bonuses	49 307	46 150
Contribution to UIF, Medical and Pension Funds	82 722	105 853
	1 071 648	**1 003 660**

Performance bonus amounting to R81 750 which relates to the 2012 financial year was approved.

Chief of Operations		
Annual Remuneration	825 872	776 193
Travel, motor car, accommodation, subsistence and other allowances	191 973	-
Performance and other bonuses	-	181 360
Leave Paid	29 678	43 358
Contribution to UIF, Medical and Pension Funds	43 680	-
	1 091 203	**1 000 911**

Performance bonus amounting to R65 344 which relates to the 2012 financial year was approved.

Community Services		
Annual Remuneration	799 299	750 312

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

25. Employee related costs (continued)

Travel, motor car, accommodation, subsistence and other allowances	232 111	61 667
Performance and other bonuses	66 330	190 622
Contribution to UIF, Medical and Pension Fund	35 687	27 082
	1 133 427	**1 029 683**

Corporate Services

Annual Remuneration	778 804	704 030
Travel, motor car, accommodation, subsistence and other allowances	238 423	37 917
Performance and other bonuses	135 613	266 667
Contribution to UIF, Medical and Pension Fund	142 672	223 083
	1 295 512	**1 231 697**

Performance bonus amounting to R45 417 which relates to the 2012 financial year was approved.

Electricity Services

Annual Remuneration	569 766	-
Travel, motor car, accommodation, subsistence and other allowances	166 046	-
Contribution to UIF, Medical and Pension Fund	8 416	-
	744 228	**-**

The Strategic Executive Director: Electricity Services was appointed on 01 October 2013.

Development and Planning Services

Annual Remuneration	911 109	212 520
Travel, motor car, accommodation, subsistence and other allowances	96 446	20 000
Contribution to UIF, Medical and Pension Fund	52 392	12 921
	1 059 947	**245 441**

Mayor

Annual Remuneration	478 051	461 435
Travel Allowance	175 950	167 572
Cellphone Allowance	20 868	19 872
Contributions Medical and Pension Funds	32 850	23 918
Housing Allowance	24 000	24 000
Reimbursement	48 495	29 923
	780 214	**726 720**

Deputy Mayor

Annual Remuneration	327 604	313 819
Travel Allowance	140 760	134 057
Cellphone Allowance	20 868	19 872
Contributions Medical and Pension Funds	75 910	68 152
Housing Allowance	24 000	24 000
Reimbursement	58 255	57 011
	647 387	**616 911**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

25. Employee related costs (continued)

Speaker

Annual Remuneration	346 330	328 845
Travel Allowance	140 760	134 057
Cellphone Allowances	20 868	19 872
Contributions Medical and Pension Funds	57 213	53 094
Housing Allowance	24 000	24 000
Reimbursement	79 201	55 969
	668 372	**615 837**

26. Remuneration of councillors

Executive Major	478 051	461 435
Deputy Executive Mayor	327 604	313 819
Mayoral Committee Members	2 543 673	2 563 270
Speaker	346 330	328 845
Councillors	14 495 141	13 557 372
	18 190 799	**17 224 741**

In-kind benefits

The Executive Mayor, Deputy Executive Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.

The Mayor has two full-time bodyguards and a driver. The Deputy Mayor and speaker have two full-time bodyguards.

27. Depreciation and amortisation

Property, plant and equipment	251 616 481	260 083 473

28. Finance costs

Non-current borrowings	8 795 359	6 843 975
Provisions and current borrowings	1 472 436	111 883
Other interest paid	-	455 962
	10 267 795	**7 411 820**

29. Debt impairment

Debt impairment	(15 650 474)	279 061 645
Contributions to debt impairment provision	1 994 889	1 569 556
	(13 655 585)	**280 631 201**

30. Bulk purchases

Electricity	382 802 503	383 643 252

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

31. Contracted services

Security services	13 499 847	8 569 840
Consultants fees	35 149 098	17 521 248
	48 648 945	**26 091 088**

32. General expenses

Advertising	1 767 321	1 790 751
Assessment rates & municipal charges	11 951 657	5 339 865
Auditors remuneration	3 246 736	4 158 944
Bank charges	2 759 096	2 345 769
Commission paid	43 149	33 745
Consulting and professional fees	1 330 651	1 372 186
Entertainment	381 581	648 354
Fines and penalties	-	932 863
Insurance	5 636 776	3 914 633
Community development and training	5 177 083	6 038 919
IT expenses	25 346	30 835
Lease rentals on operating lease	19 925 156	12 380 480
Horticulture	29 250	61 172
Magazines, books and periodicals	258 745	296 671
Motor vehicle expenses	9 726 101	7 859 144
Packaging	7 559 754	14 929 557
Pest control	3 589 349	3 523 045
Fuel and oil	889 883	315 295
Postage and courier	2 352 446	2 130 114
Printing and stationery	3 007 016	2 685 919
Promotions	2 073 102	1 263 245
Protective clothing	3 067 111	2 610 631
Royalties and license fees	-	11 536
Compensation fund	-	4 559 068
Subscriptions and membership fees	3 174 865	2 428 105
Telephone and fax	8 272 417	5 588 900
Training	2 754 404	1 671 310
Tools	224 476	136 646
Other expenses	37 998 892	26 809 436
Administration expenses	34 644 213	29 029 495
Material	2 253 997	1 699 967
Signage	350 188	403 835
Special programmes	3 429 368	2 790 252
Community VIP sanitation	10 782 539	-
Chemicals	220 231	245 475
Provision for unrecoverable Input VAT	25 594 373	-
Provision for inventory impairment	145 564	-
Loss due theft	14 492 072	10 864 772
Agency fees	-	2 400 000
	229 134 908	**163 300 934**

33. Investment revenue

Bank	17 180 921	22 496 412
Arrear consumer accounts	7 621 372	71 806 355
Other Interest	716 017	90 116
	25 518 310	**94 392 883**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

34. Fair value adjustment to investment property

Investment property	74 772 407	-

The municipality's carrying values of investment property in the investment property register was tested against values of municipal properties included in the municipality's latest General Valuation Roll determined by a professional appraiser.

35. Auditors' remuneration

Fees	3 246 736	4 158 944

36. Operating lease

Operating lease - Lease expenses (as Lessee)		
Due within one year	5 833 744	2 828 800
Due in second to fifth year inclusive	2 631 079	2 922 648
	8 464 823	**5 751 448**

Operating lease payments comprise lease rentals payable by the municipality for the office property and equipment. Leases are negotiated for 3 years for the rental of office equipment and photocopiers with no contingent rentals payable. Lease rentals for office property escalates at average 8.5% whilst rentals on office equipment does not escalate on an annual basis. Lease rentals for office property have been straight-lined.

37. Rental of facilities and equipment

Premises		
Municipal housing	2 366 382	1 661 887
Venue hire	519 684	458 260
Other	1 753 908	1 557 043
	4 639 974	**3 677 190**

38. Cash generated from operations

Surplus (deficit)	200 320 445	(263 827 450)
Adjustments for:		
Depreciation and amortisation	251 616 444	219 080 900
Surplus on distribution of non-cash assets to owners	12 604 396	(3 834 161)
Fair value adjustments	(74 772 407)	-
Dividends received	(1 015 171)	-
Impairment deficit	4 591 801	33 038 271
Debt impairment	(3 589 561)	66 747 379
Changes in working capital:		
Inventories	(5 233 554)	188 329
Receivables from exchange transactions	3 749 902	23 030 491
Consumer debtors	(165 041 247)	12 773 557
Other receivables from non-exchange transactions	(6 467 570)	(21 352 522)
Other financial assets	3 658 669	1 627 457
Payables from exchange transactions	98 954 228	35 135 451
VAT	16 754 703	(65 749 910)
Unspent conditional grants and receipts	(61 370 631)	26 252 971
Consumer deposits	52 840	16 672
	274 813 287	**63 127 435**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

39. Commitments

Authorised capital expenditure

	2014	2013
Already contracted for but not provided for		
• Infrastructure assets	128 099 693	69 099 736
• Community assets	192 807 456	135 182
• Land and buildings	112 132 339	922 357
• Other assets	23 155 180	9 877 905
	456 194 668	**80 035 180**
Not yet contracted for and authorised by accounting officer		
• Infrastructure assets	1 564 317	84 632 592
• Community assets	1 100 000	500 000
• Other assets	3 497 200	16 698 096
	6 161 517	**101 830 688**

Operating leases - as lessee (expense)

	2014	2013
Minimum lease payments due		
- within one year	6 778 335	3 216 378
- in second to fifth year inclusive	3 127 118	3 481 687
	9 905 453	**6 698 065**

Operating lease payments comprise lease rentals payable by the municipality for the office property and equipment. Leases are negotiated for 3 years for the rental of office equipment and photocopiers with no contingent rentals payable. Lease rentals for office property escalates at average 8.5% whilst rentals on office equipment does not escalate on an annual basis. Lease rentals for office property have been straight-lined.

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40. Contingencies

Plaintiff: SJ Zulu – Application and Action in the High Court
There is litigation process against the municipality relating to a dispute with Mr SJ Zulu, who is seeking damages of R20 million. The outcome of this matter is pending High Court action.

Plaintiff: BTE Construction CC
BTE Construction CC issued summons against the municipality relating to a dispute for breach of contract. Should BTE Construction CC be successful the municipality will be liable for damages claimed and legal costs amounting to R19 000.

Plaintiff: Francois Stevens
There is litigation process against the municipality relating to a dispute with Mr Francois Stevens, who is seeking damages of R45 000 relating to services rendered to the municipality. The outcome of this matter is currently before the Court and should the Mr Stevens succeed, the municipality will be liable for the damages claimed and legal costs.

Plaintiff: Evnic Data CC
There is litigation process against the municipality relating to a dispute with Evnic Data CC, who is seeking damages of R19 million. In this matter Evnic Data CC is suing the municipality for loss of profit. According to Evnic Data CC, it alleges the irregular awarding of a municipal tender to another bidder by municipal officials. Evnic Data CC avers that, had the bid been fairly evaluated and awarded, Evnic Data CC would have been awarded the tender. Should Evnic Data CC be successful the municipality will be liable for the damages claimed as well as legal costs.

Plaintiff: Rusha Peterson
There is litigation process against the municipality relating to a dispute with Rusha Peterson, who is seeking damages against the municipality amounting to R300 000. In this matter Rusha Peterson alleges that the municipality left storm water drainage pipes in a place that was accessible by public which resulted in the injury of her child. She then avers that the municipality was negligent in this regard. Municipality is being sued for damages as well as for legal costs.

Plaintiff: Singatha Africa Joint Venture
There is litigation process against the municipality relating to a dispute with Singatha Africa Joint Venture, who is seeking damages of R2 455 million relating to a dispute for breach of contract. It alleges that it was engaged by the Newcastle Municipality to perform services as a project manager. Should Singatha be successful the municipality will be liable for damages claimed and legal costs.

Plaintiff: ADZ Construction CC
There is litigation process against the municipality relating to a dispute with ADZ Construction CC, who is seeking R1 248 million for breach of contract. It alleges that the contract was unlawfully terminated. If successful the municipality will be liable for damages claimed and legal costs.

Plaintiff: Fedcon and Ngwenya
There is litigation process against the municipality relating to a dispute with Fedcon, one of the political parties within the municipality. Fedcon is comprised of two factions, one which has a seat in Council and one which has another outside Council. The faction outside of Council claims to be the rightful political party and have sought to remove the incumbent Fedcon Councillor and replace him with candidate of their choice. Fedcon is also seeking damages of R400 000 in salaries to be paid to the incumbent Councillor to the litigating faction.

Plaintiff: Wonder Xaba and Others
There is a litigation process against the municipality relating to a dispute whereby Wonder Xaba and Others comprising 141 Expanded Public Works Programme employees have sought damages amounting to R355 320 (R2 520 per employee) for terminating employment contracts. Should Wonder Xaba and Others be successful, the municipality will be liable for damages claimed.

Plaintiff: Clover S.A (Proprietary) Limited
There is a litigation process against the municipality relating to a dispute whereby Clover S.A (Proprietary) Limited whereby is seeking damages amounting to R39 100 for damage to its company vehicle. Should Clover S.A (Proprietary) Limited be successful, the municipality will be liable for damages claimed.

Wage curve agreement
The municipality has not implemented TASK as at 30 June 2014. The municipality has developed job descriptions and submitted them to the job evaluation committee however the results of the evaluation have not yet been received therefore the obligation relating to the implementation of TASK cannot be measured with sufficient reliability. The matter is currently under dispute in

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

40. Contingencies (continued)

court between SALGA and Unions.

41. Prior period errors

Comparison of the asset register and the General Valuation Roll identified Investment Property of R3 200 000 which were previously not included in the asset register and accounting records.

Assets (i.e. projects) constructed on behalf of UThukela Water (Proprietary) Limited was capitalised to the Investment in Associate in 2013. This value was subsequently reversed to Accumulated surplus.

Property, plant and equipment was recognised and depreciated as globular amounts in the asset register. Provision for Depreciation reflected in the financial statements in 2013 was calculated on globular amounts recognised. In the current year, the Municipality engaged a service provider to componentise the aforementioned assets into their major components and depreciate by their remaining useful life.

Uncollected fine revenue from traffic offenders was previously not recognised and accrued for as debtors from non-exchange transactions. In the current year the Municipality retrospectively accounted for and tested for the impairment of unrecovered fine revenue.

Trade and payables (i.e. Accruals) of R278 459 was understated for in 2013.

Input VAT on grant expenditure was not recognised as income from grants and subsidies in 2013. As a result, revenue from grants and subsidies was understated by R20 028 231.

The correction of the error(s) results in adjustments as follows:

Statement of financial position		
Investment property	-	3 200 000
Investment in associate	-	(21 854 249)
Property, plant and equipment	-	16 644 149
Accumulated depreciation	-	40 997 053
Debtors from non-exchange revenue	-	21 352 522
Provision for doubtful debts for non-exchange revenue	-	6 586 075
Trade and other payables	-	278 459
Statement of Financial Performance		
Grant revenue & Subsidies	-	20 028 231
Fines	-	5 088 613
Contribution to provision for doubtful debts from traffic fine revenue	-	1 569 556

42. Comparative figures

Certain comparative figures have been reclassified.

Disclosures

The misappropriation of electricity receipts and alleged irregular payments amounting to R580 174 and R2 267 454 has been reclassified in the current year.

Irregular expenditure	(R2 847 628)
Material losses	R2 847 628

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43. Risk management

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

No credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.

44. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

45. Unauthorised expenditure

No instances of unauthorised expenditure were identified by the municipality for the current financial year (2013: Nil).

46. Fruitless and wasteful expenditure

No instances of fruitless and wasteful expenditure was identified by the municipality for the current financial year (2013: R203 334).

47. Irregular expenditure

	2014	2013
Opening balance	79 456 544	24 966 255
Add: Irregular Expenditure - current year	6 960 234	55 032 583
Less: Amounts condoned	(81 713 899)	(542 294)
	4 702 879	**79 456 544**

Analysis of expenditure awaiting condonation per age classification

	2014	2013
Current year	4 702 879	54 490 289
Prior years	-	24 966 255
	4 702 879	**79 456 544**

Notes to the Annual Financial Statements

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47. Irregular expenditure (continued)

Details of irregular expenditure – current year

The municipality transacted with the following suppliers who's spouses were in service of the state or have been in service of the state in the preceding twelve months:

A Harilal	Super Lite Trading Enterprise		73 254
N Dlamini & CS Dlamini	Lokothwayo Marketing Enterprise		437 200
NC Ngubene	Webeco Trading Enetrprise		59 500
DW Ncala & IB Ncala	Zamlanda Caterers CC		9 200
ZP Sosibo	Baal Pekazim Trading CC		30 000
NK Kunene	Umzikazi Investments CC		338 600
SCL Nyandeni	Vumisa Contracting CC		599 103
YM Moolla	Zenith Cellular		28 421
			1 575 278

Below are details of deemed irregular expenditure which were incurred during the current financial year as a result of payments made by the municipality to suppliers whose contracts have since expired:

Gijima Holdings (Pty) Ltd		315 369
Ithala Properties		164 817
G4S Solutions SA		245 295
BMS Computing		430 617
Bytes Xerox Sa		280 548
Kuntwela Ezansi Venture		820 709
		2 257 355

The municipality did not comply with the provisions of the South African Local Government Bargaining Council Collective Agreement during the current financial year as a result of Acting Allowances paid to employees that exceeded the time frame permitted to acting in a position and where no application for exemption was made to act in a position for more than six months.

Acting allowances paid		1 221 057

Overspending on capital commitments		1 506 884

Awards made to spouses or family members of employees in service of the state

		-

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2014	2013
Current year subscription	2 521 737	1 017 544
Amount paid - current year	(2 521 737)	(1 017 544)
	-	-

Figures in Rand	2014	2013

48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Material losses

	2014	2013
Opening balance	2 847 628	-
Current year movement	1 145 257	2 847 628
	3 992 885	**2 847 628**

The municipality incurred losses of R1 145 257 (2013: R2 847 628 refer note 48).

Current year material losses comprise theft of cash amounting to R12 213 (i.e. consumer receipts) by a municipal employee. This matter has since been reported to the South Africa Police Services and the employee suspended pending the results of a crimminal investigation.

In an arbitration matter, an agreement was reached where the municipality had agreed to pay a settlement of R1 132 944 to an employee for not following proper recruitment process and subsequent termination of employment.

Audit fees

	2014	2013
Current year fees	2 904 696	3 747 944
Amount paid - current year	(2 807 795)	(3 747 944)
	96 901	**-**

PAYE and UIF

	2014	2013
Current year payroll deductions	48 973 576	35 708 752
Amount paid - current year	(48 973 576)	(35 708 752)
	-	-

Pension and Medical Aid Deductions

	2014	2013
Opening balance	4 356 753	-
Current year payroll deductions	73 087 431	41 081 130
Amount paid - current year	(77 444 184)	(36 724 377)
	-	**4 356 753**

VAT

	2014	2013
VAT receivable	25 721 296	68 070 371

All VAT returns have been submitted by the due date throughout the year.

48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2014:

30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr CN Mkhize	4 167	30 608	34 775
Cllr C Mkhize	67	2 935	3 002
Cllr CN Mkhize	7 255	31 165	38 420
Cllr ZJ Mbatha	933	3 977	4 910
Cllr MS Mlangeni	594	6 470	7 064
Cllr MP Ngobese	1 866	46 469	48 335
Cllr MO Mdlalose	616	2 636	3 252
Cllr MS Mlangeni	993	9 749	10 742
Cllr MS Mlangeni	1 219	2 555	3 774
Cllr EM Nyembe	277	1 209	1 486
Cllr DO Shabalala	1 848	6 872	8 720
Cllr MF Zikhali	844	930	1 774
Cllr MM Zwane	1 452	25 728	27 180
Cllr ME Zwane	1 933	3 853	5 786
Cllr MV Buhali	662	33 876	34 538
Cllr SJ Zulu	-	114	114
Cllr SJ Zulu	689	2 978	3 667
Cllr ME Zwane	1 534	6 530	8 064
Cllr DE Tshabalala	492	2 401	2 893
Cllr DJZ Nkosi	1 160	3 998	5 158
Cllr NP Kunene	-	1 866	1 866
Cllr FP Gama	320	1 594	1 914
Cllr NP Kunene	2 046	3 283	5 329
Cllr MS Mlangeni	5 602	50 666	56 268
	36 569	**282 462**	**319 031**

30 June 2013	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr MV Buhali	1 105	44 754	45 859
Cllr SSE Buthelezi	1 007	1 031	2 038
Cllr JK Gabuza	736	2 959	3 695
Cllr CN Mkhize	5 273	29 160	34 433
Cllr CN Mkhize	3 108	30 914	34 022
Cllr MS Mlangeni	671	661	1 332
Cllr MG Mlangeni	434	4 036	4 470
Cllr MP Ngobese	1 862	53 622	55 484
Cllr DJZ Nkosi	831	620	1 451
Cllr EM Nyembe	188	633	821
Cllr DO Shabalala	1 240	5 965	7 205
Cllr DE Tshabalala	222	645	867
Cllr EM Zungu	5 218	753	5 971
Cllr MM Zwane	1 275	16 437	17 712
Cllr ME Zwane	1 242	635	1 877
Cllr ME Zwane	1 032	3 890	4 922
Cllr SSE Mbokazi	23 400	249 653	273 053
	48 844	**446 368**	**495 212**

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

Notes to the Annual Financial Statements

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49. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Various items were procured during the year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Deviation from Municipal Supply Chain Management Regulations amounted to R8 411 376 (2013: R4 026 733) which are made up as follows:

Deviations		
Section 16	702 108	506 663
Section 17	1 246 626	1 025 431
Section 36	6 462 642	2 494 639
	8 411 376	**4 026 733**

50. Transfer of functions - UThukela Water

The effect on the account balances as a result of the transfer of assets and liabilities transferred between Newcastle Municipality and UThukela Water (Proprietary) Limited as at 01 July 2013:

Non-current assets transferred to Newcastle Municipality		
Computer equipment	163 623	
Furniture and equipment	49 305	
Plant and equipment	6 689 880	
Reservoirs	101 689 000	
Sewer pump stations	44 383 285	
Sewer reticulation assets	88 440 248	
Motor vehicles	1 839 221	
Waste water treatment assets	245 135 603	
Water reticulation assets	83 177 730	
Total non-current assets at carrying value	**571 567 895**	
Current assets transferred to Newcastle Municipality		
Eskom deposits	950 679	
Inventory transferred to Newcastle Municipality		
Water stock (01 July 2013)	327 817	
Non-current Liabilities		
DBSA loans		(16 138 617)
Current liabilities		
Staff liabilities		(2 484 274)
Non-current assets transferred to UThukela Water		
Ingagane bulk assets		(34 173 358)
Current assets transferred to UThukela Water		
UThukela Water meter loan ceded		(2 052 917)

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51. Electricity distribution losses

Purchases (KWH)	714 428 173	704 908 108
Less:		
Sales (KWH)	(668 937 270)	(662 522 083)
Loss of Units	45 490 903	42 386 025
% Loss	6	6
Estimated cost per unit - Cents	45	40
Estimated cost of loss (Rands)	20 257 501	16 954 410

Electricity distribution losses are comprised of the following:

Administrative losses
Administrative losses refers to the difference between the income generated from electricity delivered to consumers and the actual amount of revenue that is recovered. The collection rate of electricity billed is approximately 99,5%. Administrative losses are minimal as the collaboration between the Budget and Treasury Office and the Electricity Department ensures that cut-offs are effected on all unpaid accounts.

Technical losses:
Technical losses within the municipality are made up of standard line losses, unmetered own consumption, free basic electricity, street lighting and traffic lights. Standard line losses account for approximately 2% of the total energy delivered to the municipality. Street lighting contribute approximately 3600KWh per annum which equates to approximately 8% (3 600 000kWh) of electricity distribution losses.
The municipality has planned and budgeted over the next three years to retrofit street lights with energy efficient bulkheads, as well as to retrofit lighting within municipality buildings. Traffic lights have been retrofitted with LED lights and contribute approximately 0.04% (20 000kWh).

Non-technical losses:
Non-technical losses refers to unrecorded electricity delivery. Illegal connections, faulty and incorrect calibration of meters contribute to consumption not being recorded.

52. Water distribution losses

Input volume (Kl)	31 813 236	
Water loss (Kl)	10 705 638	
Water loss (%)	33.6	
Bulk Tariff (R/Kl)	2.46	
Water loss (Rands)	26 335 869	

UThukela Water (Proprietary) Limited had previously accounted for water reticulation and bulk assets.function as at 01 July 2013 therefore no water distribution losses have been reflected for the comparative period.

53. Other financial assets

At amortised cost		
UThukela Water (Proprietary) Limited	3 003 770	4 883 680
Stand debtors	11 558	1 790 317
	3 015 328	**6 673 997**
Current assets		
At amortised cost	3 015 328	6 673 997

Notes to the Annual Financial Statements

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54. Change in estimate

Provision for rehabilitation costs

The provision for landfill site rehabilitation costs was estimated at R28 939 999 in 2012. In the current year management revised their estimate to R30 800 000.

The impact of this revision in the current and future periods is as follows:

Increase in assets	R1 860 001.
Increase in depreciation	R620 000

55. Related parties

Relationships

Investment in associates	Refer to note 7

Related party balances

	2014	2013
Loan accounts - Owing by UThukela Water (Proprietary) Limited		
UThukela Water Meter Loan	3 003 770	4 344 297

Related party transactions

	2014	2013
Bulk purchases from UThukela Water (Proprietary) Limited		
UThukela Water (Proprietary) Limited	53 629 979	121 570 165

Compensation to accounting officer and other key management reflected in Note 25